



Institute for Supply Management

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CURRENT BUSINESS TRENDS

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Very good, but still moderating. That's the latest word on the Greater Grand Rapids industrial economy, according to the data collected in the last two weeks of July, 2010. NEW ORDERS, our index of business improvement remained almost unchanged at +31, down from +32. In a similar move, the PRODUCTION index eased to +27 from +30. Activity in the purchasing office, our index of PURCHASES, retreated to +23 from +34. After setting a six year record, the EMPLOYMENT index moderated to +33, down from +36. Although 43% of the firm reported adding staff, the unemployment rate in the Greater Grand Rapids area remains high. Overall, the moderation that we had been expecting has finally set in, although July is often a month when not a lot happens.

Turning as we always do to individual industries, our automotive parts suppliers reported that all of the assembly plants did not close for the traditional model changeover. However, some of the September-October production schedules are not as robust as those of a couple of months ago. Because of economic uncertainty, even plants that are at capacity are reluctant to add new equipment and personnel. The reports for the industrial distributors continue to be positive, although at least one noted a seasonal summer slowdown. For the office equipment and furniture industry, there is still evidence that conditions are slowly improving. One capital equipment firm noted that sales are improving, but most are still waiting for new orders to start coming back like they were a few years ago. Just as last month, the respondent comments at the end of this report continue to be positive, and several firms continue to set sale and production records.

At the national level, the results are not as positive. The August 2, 2010 press release from the Institute for Supply Management, our parent organization, noted that the national report for July backtracked considerably from June. ISM's index of NEW ORDERS eased to +7 from the +22 reported in June and the +38 registered in May. In a similar move, the PRODUCTION index retreated to +12 from +22. In contrast, ISM's EMPLOYMENT index rose to +18 from +15. Just as last month, all of these statistics indicate that the U.S. industrial economy is expanding, but that the national rate of expansion has moderated considerably. ISM's overall index fell to 55.5, down from June's 56.2 and May's 59.7. Again, it is worth noting that any number over 50.0 is considered growth, so the national economy is still growing, even though the pace has slowed.

At the international level, the J.P. Morgan Global Manufacturing report released on August 2, 2010, followed the same moderation pattern reported by ISM. The index of NEW ORDERS backtracked to 55.3 from 56.9. The US, China, and Japan were responsible for most of the backtracking, while the UK and the Eurozone bucked the trend. In contrast, the international EMPLOYMENT index rose modestly to 53.5 from 53.2. JPM's Global Manufacturing Index came in at 54.3, down from 55.5. Hence, we continue to see evidence that the world economy has encountered some headwind. Probable culprits are the sovereign debts of many nations around the world, as well as more restrictive monetary policies by countries like Canada and China. With evidence of the world economy slowing, JPM's index of PRICES eased to 57.0 from 58.9 in June.

Why are the firms not hiring? The fact is that many firms ARE hiring, but some of them are being very quiet about it least they end up with a line at the door. The catch is that ALMOST all of the new hires require some kind of skill, such as computer analysis, CNC operation, electronics repair, medical skills, and etc.

A bigger problem with unemployment relates to the inability or unwillingness of firms to expand. Unlike most recoveries in the past, many firms that are at full capacity are not expanding for several reasons. First, credit for small firms, even those that have been around for a long time, is still very tight. Because of the sweeping new regulations that have just been enacted, the financial institutions say that it may take months before the full impact of the new regulations are interpreted and understood. Since much of the legislation favors the borrowers over the lenders, they do not want to get trapped. Hence, banks are now only loaning money to borrowers who can prove that they don't really need it.

Second, there is a feeling among many firms that expansion is simply not necessary. Rather than incur a bunch of new debt, a lot of firms seem to be content to stay right at their current size. In this same context, these firms now seem to be more risk averse. In the case of Tier I automotive, they are also resisting pressure from their customers to expand.

A third problem is pessimism. Since consumer confidence is now almost as low as it was at the peak of the recession, it stands to reason that businesspeople, especially those with small businesses, remain pessimistic about the future. They feel that Washington and Lansing are out of touch. They fear the impact of the higher taxes that are coming their way, and they fear that more budget shortfalls at all levels of government may lead to even more taxes.

Along these same lines, there is the feeling that the current economy is just about as good as it is going to get. Part of this feeling is reflected in recent government data which tells us that the growth rate of the national economy is slowing. The GDP for the second quarter of 2010 eased to 2.4%, down from the 3.7% level of the first quarter. This report is similar to our own statistics, which also show moderation.

The news on industrial inflation continues to be good, primarily because of reduced worldwide demand for most of the major industrial commodities. For ISM-Greater Grand Rapids, the index of PRICES came in at +4, down from +26 last month and +58 just two months ago. This is the sharpest drop we have recorded for this index in our 22 year history. However, for NAPM-Southwestern Michigan, the index actually rose to a modest +30, up from +27. For the National ISM report, the index of PRICES came in at +15, virtually unchanged from last month's +14, but well below the +55 reported in May. Overall, there is still evidence that speculators are finally reducing their holdings in the commodity markets, at least for now. Commodities like steel, stainless steel, aluminum, and copper are now MODESTLY falling in price. Although a few commodities are still rising in price, the list of "Prices on the 'UP' side" at the end of this report continues to shorten.

Double dip Recession? Given that an official recession constitutes "...two continuous quarters of negative GDP growth," the odds are still only about 30%. What is far more probable is that we are in for slower growth for the rest of 2010 and possibly 2011. We may also return to a zigzag growth pattern like the period of a few years ago. We will have to watch the next few months very carefully.

COMMENTS FROM SURVEY PARTICIPANTS

“It feels like we are starting to see people loosen up on spending, but the next 6 months will tell the true story.”

“Business has leveled off from the spring surge. Backlogs have softened.”

“Although most areas are down for us in July, they are not down nearly as far as we would normally expect. Many of our OEM and Tier 1 customers cancelled their normal July shutdowns. Instead of being down for 1 - 2 weeks in July, we are running and selling at a pace that is about 3/4 of June's volume. This will be a very good July for us - the best in many years.”

“Customers are still scared. Credit is still hard to get and the ‘news media’ is ‘not’ helping!”

“Things appear to be holding steady, we are still holding our breath to see if business stays strong through 2010.”

“The heavy Class 8 commercial truck market is on a strong upswing with our business growing over 30% YTD in this area. Industry forecasts indicate significant strength in that market for the next several years.”

“This has probably been the busiest July I can recall in the automotive supplier ranks.”

“Business seems to have leveled off compared to last month. Sales maybe slightly lower but it was still a good month. I'm still very optimistically hopeful.”

“July has softened slightly for automotive. The economy continues with its ups and downs.” It appears that more and more people feel that we are looking at a slow recovery.”

“We are extremely busy. It should be a record year for us.”

“People are searching high and low for TiO2.”

“There is quoting activity but few of the quotes are coming to fruition as orders.”

“Waiting for another rebound.”

“As everyone gets busier, we are all competing for the same parts, causing shortages.”

“It feels like more people are on the up side at this point. We have added 3 new people to our staff.”

“It has been another great month, the best YTD. Sales are still holding strong, but supplier lead-times are lengthening as capacity fills. Overseas manufacturers are at capacity, causing delays and long lead-times. It is great to be complaining about lead-times and capacity issues.”

“Due to reduced funding, our organization continues to struggle to provide needed transportation services to the public.”

“We are in good shape. Orders are strong through the next 18 months.”

“Everything is good for us.”

“Orders over the next 2-3 months are very strong. We continue to add to the workforce. Our inventory levels are too high for the orders, and we have cut back our purchases. We don't want to be holding a lot of inventory if the orders fall back to 2009 levels.”

“Lead times from steel mills have increased and/or been pushed back.”

“Upward pricing pressures seem to be easing.”

	UP	SAME	DOWN	N/A	July Index	June Index	May Index	20 Year Average
Sales (New Orders)	55%	19%	24%	2%	+31	+32	+40	+29
Production	47%	27%	20%	6%	+27	+30	+40	+13
Employment	43%	47%	10%		+33	+36	+27	+ 8
Purchases	41%	41%	18%		+23	+34	+28	+ 7
Prices Paid (major commod.)	18%	64%	14%	4%	+ 4	+26	+58	+35
Lead Times (from suppliers)	35%	57%	8%		+27	+30	+46	+11
Purchased Materials Inv. (Raw materials & supplies)	27%	55%	12%	6%	+15	- 2	+14	- 5
Finished Goods Inventory	14%	60%	14%	12%	+ 0	- 2	+ 0	-10

Items in short supply: TiO2, ABS, ball and needle bearings, fluoroelastomer seals, viton seals, plasticizers, butadiene, white oil, glass fibers for resins, electronics, specialty stainless steel, steel angle.

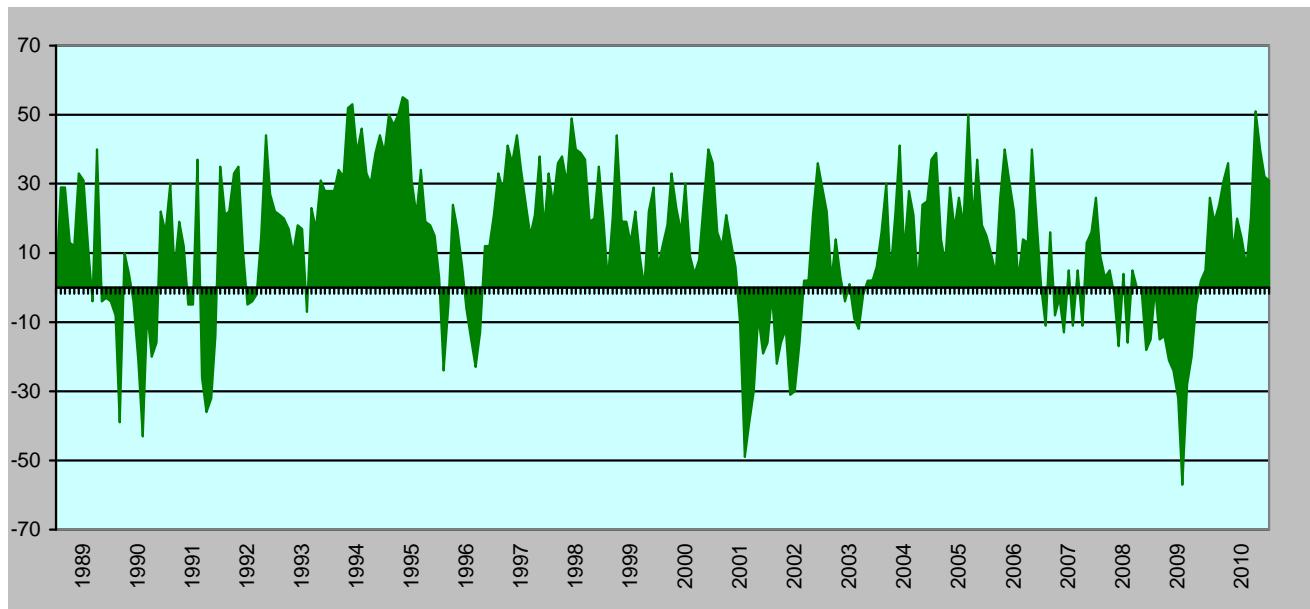
Prices on the UP side: PET film, foil, resins, silicone, printing papers, hydraulic and pneumatic components, Allen Bradley electrical parts, TiO2, carbon steel, corrugated, scrap metal, steel precision machined parts, plasticizer, antimony oxide, SEBS resin, chemicals, corrugated, stamped components, copper wire, some steel, ABS and PC/ABS resins, electronics, aluminum, power supplies, polyurethane foam and cast from China, stainless steel, paper products, bituminous asphalt, plastic components, powder paint, rubber, aluminum.

Prices on the DOWN side: Some grades of steel, carbon plate, LLDPE, PP, scrap steel, steel tubing, stainless steel, aluminum, PVC resin, polypropylene, natural gas, copper, steel surcharges, computer equipment, chlorides, landscaping services, nickel surcharges.

Index of New Orders - Greater Grand Rapids 1988 - 2010

As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more people, or possibly expand facilities. Since new orders are often received weeks or even months before any money is actually paid, this index is our best view of the future.

Latest Report	+31 for the month of July, 2010
One Year Ago	+19 for the month of July, 2009
Record Low	-57 for the month of December, 2008
Record High	+55 for the month of September, 1994



Index of New Orders: 2005-2010 Only

